U.S. Agency for International Development Administrator Andrew S. Natsios

President Bush's Budget for the U.S. Agency for International Development for Fiscal Year 2006

**Testimony Before the Subcommittee on State and Foreign Operations,
Committee on Appropriations
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Chairman McConnell, Members of the subcommittee, It is an honor to be here today to discuss the President's budget for the U.S. Agency for International Development for fiscal year 2006. Before beginning our presentation, I want to thank the Chairman and the other members of the committee and their staff for the support you have shown for our programs that allow USAID to play the critical role it does in our national security.

A New Era of Development Assistance

The President's National Security Strategy (2002) was written at a year's distance from 9/11 and is the first comprehensive response to the events of that day. Our challenges in the new era require new ways of thinking and operating, the document asserts. To meet them, the whole spectrum of our foreign policy establishment had to be engaged and many of its programs redesigned. This included "defense", "diplomacy," *and* "development," the success of whose mission is now viewed as a matter of great urgency and importance. Indeed, "development" today has received a level of commitment not seen since the Kennedy or Truman Administration.

Part of the intention of the National Security Strategy was to disabuse anyone of the opinion that "development" was something peripheral to our own nation's well being. The promotion of freedom and development around the world is, of course, an expression of the highest ideals of this country. But it is more than that. Post-9/11, the success of the cause of freedom and development is absolutely vital to making this a safer and a better world. As the President stated in his Second Inaugural, the present moment sees our highest ideals and our national security concerns conjoined. The task before us is great, and we are energized both by harsh necessity and our noblest aspirations.

In that speech the President also stated, "All who live in tyranny and hopelessness can know, the United States will not ignore your oppression, or excuse your oppressors. When you stand for liberty, we will stand with you. Democratic reformers facing repression, prison, or exile can know, America sees you for who you are: the future leaders of your free country." Supporting democratic transitions, and building democracy worldwide is one of the United States' most important goals, and one which USAID has helped support.

USAID's work in the democracy field has contributed substantively to the transitions to democratic governance throughout South and Central America in the 1980s and 1990s and in Eastern Europe and the Baltic states. As an agency, USAID has played central roles to the democratic transitions as well in countries as diverse as Mongolia, Indonesia, South Africa, Georgia, and Mozambique. Wherever they are USAID democracy programs are distinctive for their analytic grounding, their comprehensiveness, their multi-year planning cycle, and their impact. USAID programs not only promote democracy, but they build democracy for the long-term.

To help meet the challenges of the post-9/11 world, USAID is building on its experience in democracy and good governance. It is adapting its tools and knowledge to forge effective assistance programs in fragile states. It is looking carefully at the "hard nuts"– the authoritarian and semi-authoritarian states – while not forgetting that democratic governance is still at risk in many of our more stable new democracies. USAID's democracy program will be implemented by a democracy corps of over 400 who manage hundreds of millions of dollars in democracy programs around the world.

When I came back to USAID as Administrator, I was called to lead an Agency that came into being a half century earlier in a very different world. I was assuming office at a moment when the nation was trying to redefine its foreign policy in light of the realities of globalization and the end of the Cold War. The Agency was subjected to doubts about its relevancy in the new era. It was dislocated by cuts in both budget and manpower. All of this took its toll on morale within the Agency.

Early on, I called for an Agency-wide assessment to sort out our core missions and to better align them with the foreign policy needs of the new era. This exercise was undertaken to refocus the Agency, in order to better define and prioritize its tasks. The result was the Foreign Aid in the National Interest (2002) Report and the Agency's White Paper (2004), which identified five core missions of the Agency.

It has been one of my chief priorities as Administrator at USAID to strengthen the Agency's response to the key objectives the White Paper identified. These tasks have been made more urgent by the events of that day and more central to this nation's foreign policy. The Fiscal Year (FY) 2006 budget reflects this commitment.

In this budget we propose tying Development Assistance (DA) to countries' own development efforts that demonstrate that they are striving for the conditions that the President set forth to become eligible for assistance through the Millennium Challenge Account. A performance-based approach will be adopted to allocate a share of the DA account. This will compare need and performance across regions, based on standard criteria.

To meet the unprecedented challenges of the post-9/11 era, USAID is aggressively pursuing management reform through a number of initiatives. By strengthening our workforce, improving program accountability, and increasing the security of our operatives, we are building the foundation of sound management and organizational excellence. We are also reaching out to new, non-traditional partners, often using the Global Development Alliance model of public-private partnerships.

To make progress on these goals, USAID is requesting $4.1 billion for its FY 2006 programs. Additionally, we anticipate working with the Departments of State and Agriculture on joint programs that total $5 billion in ESF, FSA, SEED, ACI and P.L. 480 accounts. We will also manage a portion of the nearly $2 billion requested for the Global HIV/AIDS Initiative by the Department of State's Global AIDS Coordinator and a portion of the $3 billion for the Millennium Challenge Corporation. USAID is requesting $802.4 million in Operating Expenses (OE), the Capital Investment Fund, the Development Credit administrative funds and the Office of the Inspector General to fund the administrative costs of managing the $8.3 billion in program funds.

Major Initiatives for FY 2006

This year's request introduces two strategic reforms to increase the effectiveness of bilateral foreign aid and advance the security interests of the country. The first is a shift of $300 million from the P.L. 480, Title II food account to the International Disaster and Famine Assistance (IFDA) account for purchase of food locally. The second is a shift of $275 million from the Development Assistance account to the Transition Initiatives account. I would like to take this opportunity to explain why these reforms make better use of taxpayer dollars than our current approach.

Funds Transfer for Local Purchase of Food

As food emergencies have increased in complexity and magnitude, USAID needs to purchase some food locally in order to save lives. Given the widely differing conditions in the countries where we provide food aid, USAID needs more flexibility and access to cash in order to respond quickly and appropriately. When we need to save lives quickly, there is not always enough time to ship commodities from the U.S. Therefore, purchasing food locally will enable us to make a significant impact when food is urgently needed. Under such conditions, food would be purchased in the country facing the emergency or in a nearby developing country. Funds for local purchases will not be used to procure commodities from developed nations.

For FY 2006, $300 million that was previously requested under P.L. 480 Title II is being requested under IDFA for emergency food aid needs. Title II funds may only be used to purchase U.S. commodities, whereas IDFA funds can purchase local commodities. Food is sometimes available close to the area of need and could fill a critical gap before commodities arrive from the U.S. up to several months later. With potentially lower purchase and transportation costs, the U.S. could afford to buy more food and reach more of the vulnerable population. In some cases, carefully targeted local purchases could also help stabilize local food prices, strengthen markets and local agrarian economies, providing a double benefit: improved humanitarian assistance and greater development impact.

There are approximately 800 million people in the developing world who go to bed hungry each night. Of these, 25,000 die from hunger-related causes each day. By using $300 million in IDFA versus Title II, USAID estimates that approximately 50,000 lives could be saved in acute emergencies by supplying locally produced food more quickly and at lower delivery cost. This number is based on calculations of the potential number of beneficiaries that could be reached using $300 million in cash for local purchase vs. U.S. commodity purchase, while keeping the bulk of the Title II program intact at $885 million.

The benefits of the Administration's proposal for added flexibility in meeting emergency food needs far outweigh the potential costs, and we strongly urge congressional support. The injection of cash into a local economy can also help address malnutrition in a more sustainable way by stimulating local agricultural production and the rural economy. Local purchases could also help generate local trading and marketing links including financing triangular, regional transactions - buying in a surplus producing country to send to the food emergency in the near-by country. The ability to purchase food in local or regional markets would give us another important option for meeting critical needs.

Funds Transfer: Development Assistance to Transition Initiatives

We have requested a shift from the Development Assistance (DA) account to the Transition Initiatives (TI) account for FY 2006. The TI account differs from the DA account in the following ways, essential to providing a more rapid response to conditions on the ground: the option to use notwithstanding authority, funding that is no-year, and a shorter Congressional reporting requirement, i.e., a five day report rather than a 15 day notification. Countries that are confronting crisis or are in transition from crisis to transformational development require rapid response to their unique situation to avert further problems. We are requesting $275 million for programs in these "fragile states."

Our programs on the ground in fragile states look different than traditional aid programs. The programs focus on activities that have high-impact, visible results and may have a shorter time horizon than traditional development assistance programs. For example, we might use a cash-for-work, rapid job creation program instead of a long-term job creation program in fragile states to get people off the streets and working right away. Or we may need to invest funds immediately into restoring electricity in a city to prevent chaos. These examples may require a re-programming of funds that would require a 15-day notification process under DA account authorities. By the time the notification time passes, the Agency risks missing its window of opportunity to prevent the country from falling deeper into crisis.

The TI account has also been traditionally free from Congressional earmarks. I bring this up in the spirit of transparency. The Agency understands the political reality under which foreign assistance operates and has attempted to adjust its expectations over the years accordingly. In the case of dealing with fragile states, we feel that the flexibility to provide country programs as the situation on the ground requires is imperative to laying the foundation for long-term recovery and helping the country move from crisis towards economic and political stability. We have learned since 9/11 that weak states tend to be the vector for destabilizing forces that can have traumatic global ramifications. We hope that by freeing funding for fragile states from Congressional earmarks and allowing that funding to be adjusted more rapidly through changes in programs on the ground, USAID will be better able to do its part in applying its resources to the global war on terror.

Both the P.L. 480 to IDFA and DA to TI fund shifts represent a step toward the Agency's vision of more clearly aligning its operational goals, resources and results with the development context in which it operates. With the help of Congress, we aim to make better use of taxpayer dollars through innovative use of the authorities we have in our present account structures. We will evaluate the effectiveness of this approach in the coming year and look forward to sharing the results of these changes with you.

Program Priorities: Core Missions of USAID

The five core missions of the Agency as outlined in the White Paper and correlative priorities within these programming initiatives follow:

- *Promote Transformational Development through far-reaching, fundamental changes conducive to democratic governance and economic growth. The Agency also seeks to build human capacity by supporting essential human services in the fields of health and education. Such endeavors are key to helping countries sustain economic and social progress without continued dependence on foreign aid.*

  USAID's priorities for the use of Development Assistance include promoting human rights and democracy as well as stimulating the economic growth that can move countries into the global trading system. We have allocated assistance on a priority basis to needy countries that are manifesting strong commitment to reform

and making good development progress.

The FY 2006 request reflects a substantial increase of support for Africa when compared to a FY 2001 baseline. Particular emphasis is placed on expanding access to quality basic education, growth in agricultural productivity, and increasing trade capacity. USAID will help the countries in the U.S.-Central American Free Trade Agreement (CAFTA) with the financial and economic reforms that will allow them to take full advantage of trade liberalization. Funding for South Asia reflects the end of the relief phase for tsunami victims and the move to the recovery and reconstruction of this region. Worldwide, we will continue to work closely with the Millennium Challenge Corporation on the MCA "Threshold Program"-an MCA program currently administered by USAID that supports countries the MCC has determined to be on the threshold of MCA eligibility.

■ *Strengthen fragile states to improve security, enhance stability, and advance reform and to build institutional capacity and modernize infrastructure.*

USAID is vigorously pursuing policies that aim at peace and stability in Africa - with a particular focus on the Sudan. We will continue the effort begun in 2004 as a Group of Eight (G8) initiative to end famine and increase agricultural productivity and rural development in Ethiopia, the most populous country in the region, and one of the most famine-prone countries in the world. In Latin America, USAID is laying the foundations for stability in Haiti through various economic, social, environmental, and political initiatives. In the Near East, USAID will continue its support of Afghanistan and its encouraging progress toward democracy and economic growth after suffering from generations of war, occupation, and political fanaticism. Some of our efforts are listed in the box below.

Ten Major Achievements - USAID in Afghanistan

1. Coverage of health services exceeds some 4.8 million people. In USAID-sponsored provinces, 63% of the population has access to health services. Over 2,000 Community Health Workers have been trained and are active in health facilities. 4.26 million children have been vaccinated against preventable childhood illnesses.
2. Civic education, political party training and observer support provided in run-up to recent elections. 1.3 million Afghans were reached through voter education activities; registered 41% of all women; monitored over 1,673 polling centers - a third of all centers - on Election Day; supported 10,000 observers.
3. $101.7 million was collected through Customs Operations in 2004.
4. Over 320 kilometers of canals de-silted and 233 irrigation structures repaired, improving irrigation for 310,000 hectares of farmland.
5. Primary education provided to nearly 170,000 over-aged students, over half of them girls. Some 6,778 teachers have been trained to lead accelerated learning classes that allow students to complete two grades per year.
6. To date, 42 million textbooks have been provided. 27 million of the textbooks are in both Dari and Pashto. The textbooks are for Grades 1 through 12 in all secular subjects.
7. Radio-based teacher training (RTT) reaches 95% of the country in daily broadcasts in Dari and Pashto, reaching approximately 54,000 teachers. Of these, 9,582 teachers - 35% women - have enrolled in the RTT course.
8. National Women's Dormitory in Kabul rehabilitated. Enables over 1000 girls from rural areas to attend the medical school, the Afghan Education University, the Polytechnic Institute and Kabul University.
9. Thirty-two independent FM radio stations, including three Arman FM commercial stations, have been established.
10. The USAID-sponsored sections of the Kabul-Kandahar Highway are complete and operational, with 389 km of roadway paved, 7 bridges totally reconstructed and 39 bridges repaired.

■ *Support geo-political interests through development work in countries of high strategic importance.*

USAID's implementation of Economic Support Fund (ESF) resources for U.S. foreign policy goals places special emphasis on Iraq, Afghanistan, Pakistan and Sudan, as well as other front-line states in the War on Terror in the Asia, Near East and Africa regions. The Agency's Iraq programs will be funded from ESF and other appropriations. USAID will also target resources to the Muslim World Initiative to support countries' own efforts at social transformation. Some of our achievements in Iraq are listed in the box below.

Ten Major Achievements - USAID in Iraq

1. Prevented humanitarian emergency - delivered 575,000 metric tons of wheat, reforming public distribution system.
2. Created local and city governments in more than 600 communities.
3. Restarted schools - rehabilitated 2,500 schools; provided textbooks to 8.7 million students, supplies to 3.3 million; trained 33,000 teachers.
4. Vaccinated 3 million children under 5 and over 700,000 pregnant mothers. Rehabilitated more than 60 primary health care clinics.
5. Providing safe water - expanding Baghdad water purification plant and rehabilitating 27 water and sewage plants.
6. Re-opened deep water port - dredged Umm Qasr, repaired equipment. Today it handles 140,000 tons of cargo a month.
7. Restoring electric service - repaired eight major power plants with CPA, adding 2,100 megawatts by summer 2004.
8. Helped CPA launch new currency and re-establish Central Bank.
9. Reviving the Marshlands - reflooding revives ancient way of life. Established date palm nurseries and crop demonstrations, restocking native fishes (4-5 million fingerlings) and developed strategic plan of integrated marshland management.
10. Establishing Good Governance - budgeting, accounting systems add transparency, accountability to ministries.

- *Provide humanitarian relief to meet immediate human needs in countries afflicted by natural disaster, violent conflict, political crisis, or persistent dire poverty.*

As demonstrated by response to the recent tsunami disaster, Americans respond to humanitarian emergencies immediately, spontaneously, and generously. We do not calculate what are deeply felt moral imperatives. These commitments are long-standing. They have not changed in the course of American history nor will they be shortchanged today. What has changed is the historic context in which we act. The Administration's innovative proposal to use a portion of food aid funds to purchase food locally, outlined previously, provides the flexibility that will help our food programs save more lives.

- *Address global issues and special concerns where progress depends on collective effort and cooperation among countries. These include combating HIV/AIDS and other infectious diseases, forging international trade agreements, and combating criminal activities such as money laundering and trafficking in persons and narcotics.*

The Agency will also pursue its on-going commitments such as education initiatives in Africa and Latin America, the Trade for African Development and Enterprise initiative, Global Climate Change, Illegal Logging, the Initiative to End Hunger in Africa, and Water for the Poor. These initiatives support mainstream USAID goals and work in complementary ways with its programming in states undergoing transformational development, as well as our strategies in fragile and strategic states. These are implemented in a variety of ways, including training and technical assistance, contributions to global funds, bilateral assistance, policy analysis, and direct delivery of services. The initiatives are listed in the box below.

Presidential Initiatives	Administration Initiatives
African Education Initiative	Broader Middle East and North Africa Initiative
Anti-Trafficking in Persons	Initiative to End Hunger in Africa
Centers for Excellence in Teacher Trianing	Middle East Partnership Initiative
Digital Freedom Initiative	Trade Capacity Building
Emergency Plan for AIDS Relief	Trade for African Development and Enterprise
Global Climate Change Initiatives	Water for the Poor Initiative

Initiative Against Illegal Logging

Volunteers for Prosperity

Combating HIV/AIDS. The HIV/AIDS pandemic is more than a health emergency. It is a social and economic crisis that is threatening to erase decades of development progress. The pandemic has tended to hit in the most productive age groups and in developing counties that are least able to respond. Under the leadership of the State Department's Global AIDS Coordinator, USAID will continue working to prevent HIV transmission through a balanced "ABC" approach to behavior change that stresses Abstinence, Be faithful, and the use of Condoms. The President's Emergency Plan has recognized that to implement an effective "ABC" prevention strategy, our approach must be tailored to the culture and circumstances of the place we are working. In addition to prevention, USAID will expand access to anti-retroviral treatment, reduce mother-to-child transmission, increase the number of individuals reached by community and home-based care, and providing essential services to children impacted by HIV/AIDS.

Management Reforms and Initiatives

To meet the complex development challenges in the age of terrorism, USAID needs modern business systems; organizational discipline; and the right number of qualified, well-trained people to manage its programs. It must also draw upon the talents of a whole range of partners, both traditional and non-traditional.

USAID's FY 2006 management priorities are to strengthen and right-size the workforce, improve program accountability, and increase security.

Staffing. USAID's capabilities have been weakened by a direct-hire workforce that was drastically downsized during the 1990s and a large workforce contingent reaching retirement age. The Agency needs to increase flexibility and develop a surge capacity to respond to critical new demands if existent programs elsewhere are not to be adversely affected. To address the critical human resources needs, USAID has made the Development Readiness Initiative (DRI), which builds on the State Department's Diplomatic Readiness Initiative, a priority. This is the third year of DRI implementation, the goal of which is to strengthen the USAID workforce and rebuild the Agency's diplomatic, managerial, and development efforts. The FY 2006 funding request will help USAID meet OPM's mandate to get the "right people in the right jobs with the right skills at the right time" by increasing its direct-hire workforce.

In addition to increasing overall numbers, DRI will strengthen the Agency's capacity to respond to crises and emerging priorities, cover staffing gaps, fill critical vacancies, and provide appropriate training. DRI will maintain the Agency's quality and flexibility of human resources and ensure that staff maximizes the professional skills needed to grow with job requirements. Our commitment to DRI will make the Agency more agile and better able to respond to changing foreign policy concerns.

To supplement the Agency's DRI, the FY 2005 Foreign Operations legislation provided USAID with a Non-Career Foreign Service Officer hiring authority. This authority allows USAID to use program funds to hire up to 175 individuals, with a requirement to proportionately decrease non-USDH staff. With this authority, the Agency will increase its USDH workforce by up to 350 by FY 2006 while realizing savings to its program accounts as a result of a decrease in the overhead costs it pays contractors and USG agencies for the services of USAID non-direct hire employees.

USAID is currently undertaking a detailed workforce analysis that will identify the critical skill gaps that the Agency must address. USAID will use both the DRI and the Non-Career Foreign Service Officer authority to address these critical gaps, and to begin to homogenize its workforce by reducing the large number of less efficient and effective hiring mechanisms it currently uses.

DCHA Bureau Restructuring. To better integrate work on crisis, transition, and recovery, the Bureau for Democracy, Conflict and Humanitarian Assistance (DCHA) is undergoing reorganization and restructuring. The DCHA bureau will represent the Agency and assume responsibility for interfacing with other USG and Agencies - particularly the Departments of State and Defense. It will represent the Agency in its dealings with the new State Department Coordinator for Reconstruction and Stabilization (S/CRS), which will lead the USG response to national security emergencies and crises and will work closely with relevant USAID bureaus to more effectively lead the Agency's response to such events. USAID is also taking steps to develop a more robust crisis response capability. This includes recruiting, training and deploying a new cadre of Crisis, Stabilization and Governance Officers.

Partnerships. USAID is actively engaged in identifying and forging agreements with non-traditional partners, including faith-based organizations. We are proud of our initiatives in this regard.

The Global Development Alliance (GDA) is the centerpiece of our public-private alliances which brings significant new resources, ideas, technologies, and partners together to address development problems in the countries where we are represented. Through FY 2004, USAID funded over 290 public-private alliances that used $1 billion in USAID resources to leverage over $3 billion in alliance partner contributions.

A new obligating instrument - the collaborative agreement - was created by USAID and became operational in FY 2005. This provides an alternative to traditional grants and contracts for our non-traditional partners. In support of the U.S. global health and prosperity agenda, USAID has recruited highly skilled American professionals to international voluntary service from nearly 200 US non-profit organizations and companies. Three-quarters of these entities are new to USAID. Of these, 30 are counted among the GDA figures noted above. About 20 of the entities are faith-based organizations.

Branding. The USAID "branding" campaign is designed to ensure that the American people are recognized for the billions of dollars spent on foreign assistance. A new standard "identity" clearly communicates that our aid is from the American people, which will be translated in each country into local languages. The "brand" will be used consistently on everything from publications to project plaques, food bags to folders, business cards to banners.

Business Transformation. To address significant management challenges and improve our accountability to the American taxpayers, the Agency will continue to modernize its business systems and support joint State-USAID goals for information technology management. Joint procurement and financial management systems will serve both organizations' needs and improve program accountability as will our efforts to better integrate budgeting and performance information.

Ten Major Achievements - Business Transformation
FY 2001 - 2004

1. Received two consecutive annual clean audit opinions on Agency financial statements that demonstrate transparent and accountable financial practices.
2. Implemented an annual Agency-wide survey to assess quality of management services and identify opportunities for improvement, achieving over 25% increase in employee satisfaction over fours years.
3. Launched comprehensive Human Capital Strategy and Development Readiness Initiative to identify and close critical skill gaps, revitalize the workforce and enhance Agency performance.
4. Deploying a new financial management system and new procurement software overseas to enhance decision-making and enable fast and accountable transactions.
5. Allocated additional funds to countries with the most need and the highest commitment through strategic budgeting. Re-allocated $30 million to higher performing, higher need programs after an internal country and program performance assessment.
6. Enhancing knowledge management systems and methods to capture and share development expertise and new ideas. There are 130,000 documents in our institutional memory bank.
7. Expanded USAID employee training tools enabling Agency employees to complete nearly 2,000 Web-based courses to enhance job performance. Trained nearly 1,000 employees on Executive and Senior Leadership to enhance career development opportunities.
8. Better aligning staff with foreign policy priorities and program spending levels.
9. Reduced the average hiring cycle time from closure of job announcement to job offer below the OPM standard of 45 days. In addition, the process is more predictable and systematic.
10. Published a regulation to allow faith-based organizations to compete on an equal footing with other organizations for USAID funds.

Security. USAID continues its commitment to protect USAID employees and facilities against global terrorism and the national security information we process against espionage. The Agency will increase physical security measures, such as building upgrades, emergency communications systems, and armored vehicles. Personnel security, such as background investigations and security clearances, will be upgraded as will information security.

Conclusion

The FY 2006 budget request for the new USAID supports U.S. foreign policy goals and national security interests.

The request responds to the President's priorities, including support for the Global War on Terrorism, and helping Iraq, Afghanistan and Sudan toward stability and security. It sets priorities that use aid effectively to promote real transformation in developing countries committed to reform. It also helps states that are more vulnerable or crisis-prone to advance stability, security and reform as well as develop essential institutions and infrastructure. The assistance supports individual foreign policy objectives in geo-strategically important states, continues USAID's global reach to offer humanitarian and disaster relief to those in need, and addresses the entrenched poverty and the global ills and scourges that afflict humanity.

I would like to acknowledge the support of this Committee in helping USAID fulfill the enormous responsibilities it faces today and supporting its efforts to promote peace throughout the world by spreading democracy, opportunity, and prosperity.